

Message Text

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ACTION EA-09

INFO OCT-01 AF-10 ARA-14 EUR-12 NEA-10 ISO-00 FEA-01

ERDA-07 AID-05 CEA-01 CIAE-00 COME-00 EPG-02

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NSAE-00 NSC-05 OMB-01 PM-04 USIA-15 OES-07 SP-02

SS-15 STR-04 TRSE-00 ACDA-10 /160 W

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FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 2331

INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

AMEMBASSY BANGKOK

AMEMBASSY BRUSSELS

AMEMBASSY CANBERRA

RUESRS / AMEMBASSY CARACAS 174

CINCPAC HONOLULU

AMEMBASSY DOHA

AMCONSUL HONG KONG

AMEMBASSY JIDDA

AMEMBASSY DHAHRAN

AMEMBASSY KUALA LUMPUR 4849

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LIBREVILLE

AMEMBASSY LONDON

AMEMBASSY MANAMA

AMEMBASSY MANILA

AMCONSUL MEDAN

AMEMBASSY PORT MORESBY

AMEMBASSY SINGAPORE

AMEMBASSY PARIS

AMEMBASSY QUITO

AMCONSUL SURABAYA

AMEMBASSY TEHRAN

RUQMTI / AMEMBASSY TRIPOLI 147

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AMEMBASSY THE HAGUE

AMEMBASSY TAIPEI

AMEMBASSY TOKYO

AMEMBASSY VIENNA

AMEMBASSY WELLINGTON

UNCLAS JAKARTA 9097

USEEC

USOECN ALSO FOR EMBASSY PARIS

TOKYO PASS MARAD

CINCPAC FOR POLAD

E.O. 11652: N/A

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SUBJ: INDUSTRY OUTLOOK REPORT: INDONESIA'S PETROLEUM SECTOR

REF: A. CERP 0425, B. JAKARAA A-105(JULY, 1976)

1. JAKARTA'S A -80 OF JULY 1,1977 CONTAINS THE EMBASSY'S ANNUAL PETROLEUM REPORT. SINCE THIS IS ONE OF THE KEY SECTORS OF THE INDONESIAN ECONOMY, THE SUMMARY AND HIGHLIGHTS OF SUBJECT AIRGRAM FOLLOW IN THIS CABLE.

2. I. SUMMARY AND HIGHLIGHTS: THE RENEGOTIATION OF CONTRACTS WITH FOREIGN OIL COMPANIES, AN OUTCOME OF THE PERTAMINA FINANCIAL CRISIS, DOMINATED EVENTS IN INDONESIA'S PETROLEUM SECTOR DURING THE PAST YEAR. THE SUBSEQUENT REVISIONS SIGNIFICANTLY ALTERED COMPANIES' PROFIT SHARING ARRANGEMENTS, CONTRIBUTED TO A REDUCTION IN EXPLORATION
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ACTIVITIES, AND RAISED DOUBTS ABOUT INDONESIA'S OVERALL INVESTMENT CLIMATE. IN THE AFTERMATH OF THESE CHANGES, THE GOVERNMENT OF INDONESIA (GOI) HAS OFFERED NEW EXPLORATION INCENTIVES INTENDED TO REKINDLE INTEREST IN THE DEVELOPMENT OF ADDITIONAL OIL AND GAS RESOURCES. THESE INCENTIVES HAVE BEEN BACKED UP BY HIGH-LEVEL GOVERNMENT ASSURANCES THAT FOREIGN INVESTMENTS WILL BE WELCOMED AND PROTECTED.

3. THE INDONESIAN GOVERNMENT ACHIEVED CONSIDERABLE PROGRESS IN MANAGING THE PERTAMINA DEBT IN 1976, LOCAL CURRENCY OBLIGATIONS WERE SUBSTANTIALLY REDUCED AND TWELVE TANKER CONTRACTS WERE RESOLVED WITH ADDITIONAL SETTLEMENTS A DISTINCT POSSIBILITY. PERTAMINA CONTINUED TO STREAMLINE ITS OPERATIONS IN AN EFFORT TO CONCENTRATE MORE EXCLUSIVELY ON OIL-RELATED ACTIVITIES. SEVERAL CHANGES IN THE PERTAMINA BOARD OF DIRECTORS WERE ANNOUNCED.

4. THE FORMATION OF THE TECHNICAL COMMITTEE OF ENERGY POWER RESOURCES ON NOVEMBER 11, 1976 MARKED THE FIRST STEP TOWARD A COMPREHENSIVE ENERGY POLICY WHICH WILL RESPOND TO THE NEW REALITIES OF COMING DECADES. THE NEW

PLAN IS EXPECTED TO LAY STRESS ON THE TWIN GOALS OF CONTINUED EXPANSION OF NEW OIL RESERVE FOR EXPORTS PLUS THE RAPID DEVELOPMENT OF NON-OIL ENERGY RESOURCES, PARTICULARLY COAL, TO MEET THE ANTICIPATED GROWTH IN DOMESTIC ENERGY CONSUMPTION.

5. ON MAY 7, 1976, THE U.S. INTERNAL REVENUE SERVICE ISSUED A RULING DISALLOWING A FOREIGN TAX CREDIT FOR A SHARE OF OIL PRODUCTION RETAINED BY THE GOI UNDER THE TERMS OF PRODUCTION-SHARING CONTRACTS WITH U.S. OIL COMPANIES. PERTAMINA HAS ENTERED INTO CONSULTATIONS WITH SEVERAL AMERICAN COMPANIES TO MODIFY KEY PARTS OF THE INDONESIAN PRODUCTION-SHARING CONTRACTS SO AS TO ELIMINATE CERTAIN IRS OBJECTIONS. ON THE BASIS OF THESE MODIFICATIONS, THREE COMPANIES HAVE FILED PRELIMINARY REQUESTS FOR A REVISED REVENUE RULING FROM THE IRS.

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TIONS, THREE COMPANIES HAVE FILED PRELIMINARY REQUESTS FOR A REVISED REVENUE RULING FROM THE IRS.

6. IN GOI FISCAL YEAR FY 1976/77 (THE INDONESIAN FISCAL YEAR RUNS FROM APRIL 1 TO MARCH 31), NET PETROLEUM EARNINGS \$3.7 BILLION (ALL FIGURES CITED IN HIS REPORT, UNLESS OTHERWISE NOTED, ARE FROM GOI SOURCES) ACCOUNTED FOR 59 PERCENT OF NET FOREIGN EXCHANGE EARNINGS. SIMILARLY, TAX REVENUES FROM PETROLEUM ACTIVITIES (\$4.0 BILLION) ACCOUNTED FOR 59 PERCENT OF TOTAL BUDGETARY RECEIPTS IN FY 1976/77.

7. INDONESIAN CRUDE PRODUCTION REACHED RECORD LEVELS IN 1976, AVERAGING 1.503 MILLION B/D. THIS REPRESENTS A 15 PERCENT INCREASE OVER 1975. AT THE END OF 1976, INDONESIA RANKED 12TH AMONG WORLD OIL PRODUCERS AND ACCOUNTED FOR ABOUT 2 PERCENT OF WORLD OIL RESERVES. THE OFFICIAL FORECAST FOR 1977 PEGS OIL OUTPUT AT 1.58 MILLION B/D. PROVISIONAL FIGURES FOR THE FIRST QUARTER OF 1977 RECORD PRODUCTION AT 1.68 MILLION B/D, THUS EXCEEDING THE TARGET.

8. ON JANUARY 1, 1977, INDONESIA ANNOUNCED NEW SALES PRICES FOR ITS MAJOR EXPORT CRUDES. AFTER FIRST ADJUSTING PRICES FOR QUALITY DIFFERENCES (SULFUR AND GRAVITY) A NEW PRICE SCHEDULE WITH AN AVERAGE INCREASE OF 7 PERCENT WAS INSTITUTED. THE PRICE FOR SUMATRAN MINAS "MARKER" CRUDE WAS RAISED 5.9 PERCENT TO \$13.55/BARREL (FOB) FROM \$12.80/BARREL.

9. EXPORTS, AIDED BY PRICE COMPETITIVENESS, REMAINED BUOYANT THROUGHOUT 1976. TOTAL EXPORTS AVERAGED 1.2 MILLION B/D FOR 1976 AND CLIMBED TO 1.3 MILLION B/D

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DURING EARLY 1977. INDONESIA'S TWO MAIN CUSTOMERS FOR CRUDE OIL IN 1976 WERE JAPAN (43 PERCENT OF TOTAL EXPORTS) AND THE U.S. (41 PERCENT) M MINES MINISTER MOHAMMAD SADLI ANNOUNCED IN MARCH 1977 THAT THE U.S. HAD REPLACED JAPAN AS INDONESIA'S CHIEF EXPORT MARKET FOR CRUDE OIL.

10. EXPLORATION AND DEVELOPMENT WORK DROPPED SIGNIFICANTLY IN 1976, PARTLY A RESULT OF THE RENEGOTIATION OF CONTRACTS. FOREIGN CONTRACTORS, ALONG WITH PERTAMINA, COMPLETED 142 NEW EXPLORATORY WELLS, OF WHICH 43 SUCCEEDED IN DISCOVERING NEW SOURCES OF OIL AND GAS. IN 1976, COMPANIES SPENT ABOUT \$1.1 BILLION ON THE SEARCH FOR NEW OIL AND GAS RESOURCES. THE OUTLOOK FOR 1977 CALLS FOR THIS DEPRESSED LEVEL OF ACTIVITY TO CONTINUE BUT WITH SOME IMPROVEMENT EXPECTED NEAR THE FIRST PART OF 1978.

11. TWO MAJOR LNG (LIQUEFIED NATURAL GAS) PROJECTS ACHIEVED SIGNIFICANT PROGRESS IN 1976/77. THE FIRST GAS PROCESSING TRAIN AT THE HUFFCO/PERTAMINA FACILITY IN EAST KALIMANTAN IS MECHANICALLY COMPLETE; FIRST GAS SHIPMENTS TO JAPAN SHOULD OCCUR IN LATE SUMMER. THE MOBIL/PERTAMINA LNG PROJECT IN NORTH SUMATRA WILL COMPLETE ITS FIRST PHASE IN OCTOBER 1977 WITH SHIPMENTS OF CONDENSATE EXPECTED AT THAT TIME.

12. ON OCTOBER 15, 1975, INDONESIA BECAME A CHARTER MEMBER OF ASCOPE (ASEAN COUNCIL ON PETROLEUM) ALONG WITH THAILAND, THE PHILIPPINES, MALAYSIA, AND SINGAPORE. THE NEW ORGANIZATION'S CHIEF OBJECTIVE IS TO PROMOTE ACTIVE COLLABORATION AND ASSISTANCE AMONG MEMBER STATES IN THE DEVELOPMENT AND UTILIZATION OF PETROLEUM RESOURCES. ASCOPE WILL HOLD ITS FIRST PETROLEUM CONFERENCE AND EXHIBITION IN JAKARTA FROM OCTOBER 11-13, 1977. INDONESIA IS ALSO A MEMBER OF OPEC. IT HAS ABOUT 5 PERCENT OF OPEC'S CRUDE PRODUCTION BUT NEARLY 50 PERCENT OF ITS POPULATION. THE GOI DID NOT PARTICIPATE IN THE 1973/74

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OIL EMBARGO OR IN THE OPEC OCTOBER 1975 DECISION TO HIKE PRICES BY 10 PERCENT.

13. APART FROM U.S. INTEREST IN INDONESIA AS A CURRENT SUPPLIER AND AN IMPORTANT FUTURE SOURCE OF ENERGY, U.S. COMPANIES CONTINUE TO PLAY A VERY SIGNIFICANT ROLE IN THE DEVELOPMENT OF INDONESIA'S PETROLEUM SECTOR.

THERE ARE PRESENTLY 23 U.S. COMPANIES OPERATING AS CONTRACTORS IN INDONESIA, AND IN 1976, U.S. COMPANIES (ARCO, CALTEX, IIAPCO, HUFFCO, TREND, STANVAC, CITIES SERVICE, TESORO, UNION) PRODUCED 85 PERCENT OF INDONESIA'S OIL. MOREOVER, TWO U.S. COMPANIES(HUFFCO, MOBIL) ARE WORKING WITH PERTAMINA TO DEVELOP LARGE NATURAL GAS DEPOSITS FOR PROCESSING AND SHIPMENT OF LNG TO JAPAN AND THE UNITED STATES.THESE COMPANIES AND OTHERS RELY HEAVILY ON U.S. GOODS AND SERVICES, THEREBY STIMULATING DEMAND FOR U.S. EXPORTS. END SUMMARY AND HIGHLIGHTS.
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